

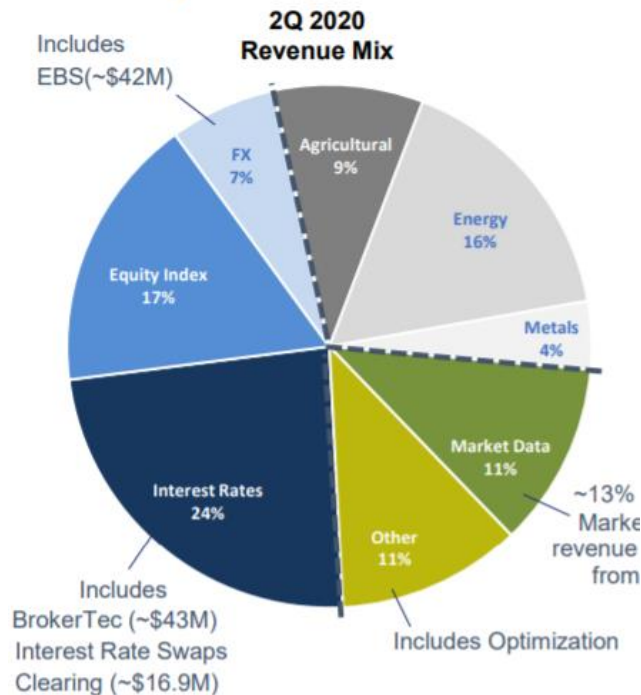
Inside CME Group: Last Quarter's Progress.

Aug. 12, 2020

CME is a complicated company; though it might be better to say it's a good company working in a complicated business. The simplest way to understand CME is to remember that it helps the whole investment world in two ways: either helping it make bets on financial assets and commodities which can go sharply up and down; or helping it protect against those same up-and-down price movements. So when financial assets and/or commodities look to most people like they might go up or down a lot, CME makes a lot of money from bigger trading volume. But when, for some reason, financial assets and commodities look stuck in place, CME sees its customer activity dry up.

"Stuck in place" is just how it has looked since March or so, to many of CME's customers. The Fed lowered interest rates back to zero, nearly, and promised to keep them there for two years! That eliminated the "sharply down" possibility for all those betting people, and temporarily discouraged them from thinking "sharply up" might be a possibility no matter what the Fed promised. And plenty of commodities crashed in February and March (especially oil), and were very slow to show any hint of potential for "sharply up."

Our company spelled out its response to all of this in its latest Earnings Call: essentially, to "keep creating new products, and keep cultivating loyalty and new product experimentation by customers." That is exactly what CME has been doing for a long time now—but this Earnings Call made it clear that the company is being more successful than ever, at that core mission. The pie chart below makes that clear.



CME's flagship products have always been those used to bet on—or protect against—interest rate movements. With rates back toward zero, that is one of the reasons why its stock price hasn't recovered from the COVID crash as well as some of Outlook's other stocks. But while interest rate products do still

account for about 50% of CME's volume, they are only 24% of its revenue, as the chart shows. That's a major reduction from even 10 years ago, and makes it obvious how well management has carried out that core mission. At Outlook we're pretty certain that both interest rates and commodities prices will not stay "stuck" where they are; and CME will benefit very significantly.